

Message Text

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C O N F I D E N T I A L LIMA 5570

STADIS////////////////////////////////

LIMDIS

FOR ASSISTANT SECRETARY TODMAN

E.O. 11652: GDS

TAGS: EFIN, PE, IMF
SUBJECT: GOP AND THE IMF

1. THE FOREIGN MINISTER CALLED ME TO HIS OFFICE THIS MORNING FOR WHAT TURNED OUT TO BE A LENGTHY FIRST SESSION BETWEEN US -- MORE THAN AN HOUR AND A HALF. DE LA PUENTE'S OVER-RIDING CONCERN WAS THE STATE OF PLAY BETWEEN THE GOP AND THE IMF. THE COUNCIL OF MINISTERS IS MEETING THIS AFTERNOON TO CONSIDER THE FUND'S LAST OFFER AS IT WERE. DE LA PUENTE THOUGHT THE MEETING MIGHT WELL COME OUT BADLY.

2. IN BRIEF, AS I UNDERSTAND IT, THE IMF MISSION ASKED FOR A REDUCTION IN THE FISCAL DEFICIT TO 30 BILLION SOLES. FINANCE MINISTER PIAZZA CAME UP WITH 32.5 BILLION AS THE ROCK BOTTOM FIGURE. AN ALTERNATIVE ACCEPTABLE TO THE FUND WAS THEN PUT FORWARD:
TO LEAVE THE DEFICIT AT PIAZZA'S FIGURE BUT TO CUT SUBSIDIES TO STATE ENTERPRISES OUTSIDE THE FISCAL
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BUDGET BY AN ADDITIONAL 2.5 BILLION. IT IS THIS SCHEME THAT PIAZZA IS ATTEMPTING TO SELL TO THE COUNCIL OF MINISTERS. THE FOREIGN MINISTER THOUGHT HE WOULD FAIL AND THAT THE RESULT MIGHT BE PIAZZA'S RESIGNATION -- A "FATAL" DEVELOPMENT IN OUR FRIEND'S VIEW

3. DE LA PUENTE SAID HE HAD BEEN SO ALARMED AT THIS PROSPECT THAT HE HAD THOUGHT OF CALLING YOU DIRECTLY FOR HELP WITH THE IMF. ON LEARNING THAT I WAS NOW ON THE SCENE, HE DECIDED INSTEAD TO UNBURDEN HIMSELF TO ME. THE FUND SHOULD UNDERSTAND, HE SAID, THAT A FURTHER CUT IN SUPPORT FOR THE STATE ENTERPRISES WOULD AT LEAST IN PART HAVE TO BE TAKEN OUT OF SUBSIDIES TO MILK AND OTHER FOOD DISTRIBUTED BY THE STATE. THIS COULD ONLY BRING ABOUT A "CONFRONTATION" WITH THE PEOPLE, ALREADY STIRRING DANGEROUSLY OVER THEIR INCREASING IMPROVERISHMENT. DE LA PUENTE ASKED IF I HAD ANY ADVICE FOR HIM.

4. I NOTED FIRST THAT OUR CAPACITY TO INFLUENCE THE FUND IS OBVIOUSLY LIMITED AND THAT ANY USG APPROACH TO THE FUND

ON SUCH A MATTER IS, GIVEN THE SENSITIVITIES INVOLVED, NECESSARILY DIFFICULT. BUT I ADDED THAT I WOULD INFORM YOU AT ONCE. I THEN TRIED TO EMPHASIZE AS THE BEST ADVICE I COULD OFFER THAT IF THE FUND'S LAST POSITION TURNS OUT TO BE UNACCEPTABLE, PIAZZA SHOULD GO BACK TO THE NEGOTIATING TABLE. IT SHOULD NOT BE, IN MY JUDGMENT, A QUESTION OF ULTIMATUMS OR BREAKING OFF CONTACT, BUT RATHER A CONTINUING EFFORT TO KEEP THE DIALOGUE GOING.

5. COMMENT: DE LA PUENTE'S OBSERVATIONS WERE NOT SHEER ALARMISM. THE GOP IS IN A TIGHT CORNER. AS OUR REPORTING OF STRIKES AND OTHER INCIDENTS OF ONE KIND AND ANOTHER CONFIDENTIAL

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INDICATES, THERE IS MORE THAN ENOUGH POLITICAL FERMENT ALREADY WITHOUT CONTEMPLATING FURTHER PRICE INCREASES ON BASIC NECESSITIES. I THINK IT IS TO THEIR CREDIT THAT MORALES BERMUDEZ AND HIS COLLEAGUES WANT AT ALL COSTS TO AVOID "DOING A PINOCHET," AS THE FOREIGN MINISTER PUT IT.) BUT WORSE THAN THE THREAT OF VIOLENCE IS THE APPARENT PLIGHT OF THE URBAN POOR. THERE SEEMS TO BE NO QUESTION FROM THE REPORTS I GET THAT PEOPLE ARE GOING HUNGRY IN THE "PUEBLOS JOVENES" AROUND LIMA. TIGHTENING THE BELT YET ANOTHER NOTCH CAN ONLY SQUEEZE THAT SECTOR OF THE POPULATION THAT MUCH HARDER.

6. WE SHOULD KNOW FAIRLY SOON HOW THE COUNCIL OF MINISTERS COMES OUT. I WOULD NOT RECOMMEND ANY ACTION IN WASHINGTON BEFORE THAT INFORMATION IS AT HAND. WE CAN THEN SEE WHAT MIGHT BE DONE TO GIVE THE PERUVIANS A HELPING HAND AT WHAT IS OBVIOUSLY A CRITICAL MOMENT IN THEIR POST-VELASCO DEVELOPMENT
(THE PL-480 TITLE I PROGRAM UNDER CONSIDERATION UP THERE WOULD BE A REAL HELP.)

IN THE MEANTIME, HOWEVER, YOU MIGHT WANT TO SEND
DE LA PUENTE A PERSONAL MESSAGE THROUGH ME ASSURING HIM
OF OUR CONTINUING INTEREST AND DESIRE TO BE HELPFUL. I
KNOW HE WOULD APPRECIATE IT.
SHLAUDEMAM

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